June 30, 1999

Clinton's Medicare "Plan": More Federal Spending. More Budget Gimmickery

This is Medicare Reform?

President Clinton today unveiled his long-awaited Medicare "reform" plan — which, not surprisingly, turns out to be yet another phony Clinton IOU transfer scheme. Depending on whether or not you give credence to a financing mechanism that relies on double-counting — already rejected by CBO and GAO as unsound — the Clinton "reform" proposal will cost anywhere from $46.9 billion to $375.4 billion over the next ten years.

The Medicare program has existed in financial straits since Clinton came to office. Furthermore, the best chance of reform — the bipartisan Medicare Commission — was undercut by the White House and Clinton's appointees. To now label as "reform" a proposal that spends more money is the grossest violation of truth in advertising in history.

Balance Sheet
(10-year figures in billions of dollars)

Spending limits	39		Provider exemptions	-7.5
Private Sector Purchase	25		55+ Health Campaign	-3
Increased Competition	8		Near-senior buy-in	-1.4
Enhanced Cost-sharing	11		Prescription drugs	-118
Subtotal	83		**Subtotal**	-129.9
Total Cost: $46.9				

In fact, the Clinton Medicare proposal is no more than a warmed-over rehash of transfers, double-counting, additional mandates, and expanded entitlements contained in the Administration's February budget proposal. After six and a half years of waiting for real Medicare reform, President Clinton has decided to leave the patient in the waiting room even longer.

Inadequate Savings Proposals

The White House seeks to claim credit for Medicare's current fiscal condition: "President Clinton has worked to pass and implement Medicare reforms that, coupled with the strong economy and the Administration's aggressive anti-fraud and abuse enforcement efforts, have saved hundreds of billions of dollars and helped to extend the life of the Medicare trust fund from 1999 through 2015." [Administration statement, 6/29/99] But in fact —

- President Clinton never proposed a stand-alone Medicare reform plan — he only addressed it as part of his attempt to nationalize America's health care system. It required Congressional initiative for reform to occur, and Clinton vetoed one version of Medicare reform before signing it in the Balanced Budget Agreement; and

- Medicare's improved financial condition from the 1998 to the 1999 trustees' report is due to the BBA's reforms and to the transfer of a substantial benefit (home health care) from its trust fund financing to the general fund.

The Administration claims $83 billion in savings over 10 years from four areas. However, even the small savings are overstated because in two instances — increased competition in managed care and extended, BBA-like spending limits — these would not begin to materialize until 2003 — four years from now.

Medicare Private Sector Purchasing and Quality Improvement

- Clinton would change the traditional fee-for-service program to make it more competitive by using "market-oriented purchasing and quality improvement tools to improve care and constrain costs." It would also "provide new or broader authority for competitive pricing, incentives for beneficiaries to use physicians who provide high quality care at reasonable costs, coordinating care for beneficiaries with chronic illnesses, and other best-practice private sector purchasing mechanisms." Savings: $25 billion over 10 years.

- The primary question is who will do this purchasing and coordinating? If it is to be the Health Care Financing Administration (HCFA), it should be remembered that HCFA is already overwhelmed and cannot adequately handle its current responsibilities in regards to Y2K and implementing Medicare-Plus Choice.

Managed Care Increased Competition

The White House claims that it will "inject true price competition" for the first time. Plans would be paid for covering Medicare-defined benefits, which would include a new subsidized drug benefit. Savings: $8 billion over 10 years (beginning in 2003).

- But Medicare already has a competitive system as a result of the BBA 1997's Medicare-Plus Choice proposal. How additional savings would be achieved — particularly in the light of a new, expensive mandated benefit — is unclear.

- It is hard to see how limiting an injection of competition into just 15 percent of the Medicare program — which already has it — is a real injection. No wonder Democrat Senator John Breaux stated that this proposal is "like the second cousin to real competition."

Out-year Spending Limits

The White House would extend the spending constraints (set to expire after 2002) at a rate sufficient to reduce average annual Medicare spending growth from 4.9 percent to 4.3 percent. Savings: $39 billion over 10 years.

- But these savings — like those listed previously — will not begin to materialize until the fourth year. Furthermore, there is no description as to how these savings will be made.

Increased Cost Sharing

The White House would increase cost sharing by adopting a 20 percent copayment for clinical laboratory services and indexing the Medicare Part B deductible for inflation (so that the deductible would increase annually). Savings: $11 billion over 10 years.

Cost Proposals

The Clinton proposal more than consumes its savings estimates with initiatives that will increase spending.

Provider Exemptions from BBA Spending Limits

The Administration "includes a provider set-aside designed to smooth out provisions in the BBA that may be affecting Medicare beneficiaries' access to quality services and will work with Congress, outside groups, and experts to identify real access problems and the appropriate policy solutions." The Clinton proposal also includes a number of unspecified administrative actions that are designed to moderate the impact of the BBA 1997 on some health care providers' ability to deliver quality services to beneficiaries. Cost: $7.5 billion over 10 years.

Entitlement Expansion

The White House includes several proposals to expand Medicare's entitlement to include a provision so those aged 62-65 who choose to buy in to the program for $300 per month, displaced workers aged 55-62 who involuntarily lose their job and insurance, and retirees aged

55 and over who lose their health care in retirement would be able to extend their coverage under COBRA. Cost: $1.4 billion/10 years.

- Not only is this an expansion of seniors' health care systems away from its primary population, but there alsoare real questions as to whether the costs could be limited to the low figure cited by the Administration. If not, these added beneficiaries will exacerbate Medicare's already impending financial crisis.

Entitlement Increase

The Clinton proposal would increase the current Medicare entitlement by adding several new benefits. These include the elimination of all cost sharing for preventive benefits — including copayments and deductibles. Included as well is a three-year smoking cessation campaign and a health education campaign targeting those over age 50. Cost: $3 billion over 10 years.

- Considering Medicare's currently precarious financial situation, it is questionable as to whether these entitlement increases are advisable.

Prescription Drug Benefit

The most touted aspect of the Administration's proposal has been the inclusion of a phased-in prescription drug benefit as a new, voluntary Part D program beginning in 2002. This new benefit would cost beneficiaries an additional $24 per month in 2002 and increase 83 percent to $44 per month in 2008. These would be on top of existing Medicare Part B premiums, which are estimated to be $58 per month and $94.60 per month in 2002 and 2008, respectively. Thus, these will represent a 41 percent and 21 percent increase in beneficiaries' voluntary coverage costs in 2002 and 2008. Beneficiaries would have no deductible and the government would pay half the cost of drugs up to $2,000 in 2002 and $5,000 in 2008. Beneficiaries at 135 percent of poverty or less would pay neither premiums nor cost sharing, and those up to 150 percent of poverty would receive unspecified assistance. Cost: $118 billion over 10 years.

- A comprehensive prescription drug plan should be discussed as part of overall Medicare reform. Considering the insignificant savings included and no increase in solvency (except via the gimmickery of the general fund transfer — see next section), adding this expensive new benefit is dubious policy at best. The elimination of any, even nominal, out-of-pocket expenses for a substantial population is only likely to make current estimates overly conservative as to the costs.

- The plan is virtually certain to wipe out all private prescription drug plans — a circumstance known as "crowd-out." While the Administration claims it will "provide incentives for employers to retain their health coverage," it is impossible to see how these plans can compete with a heavily subsidized government plan.

Claims of Increased Trust Fund Solvency

The Administration makes the erroneous claim that their proposal "extends the life of the Medicare trust fund for a quarter of a century, to at least 2027." This would only be true if the trust fund were to be bankrupt in 2002. The latest trustees' report in fact shows that the fund will be bankrupt in 2015 (as stated earlier, this was due to BBA 1997's reforms and transfer of the home health care program from the trust fund). That means an additional 12 years — even assuming the Administration were using real dollars.

It is fitting that such a patently exaggerated claim would be affixed to such a transparent transfer proposal as the Administration offers to try to make its increased solvency claim.

Simply put, the Administration claims to transfer $328.5 billion over 10 years and $794 billion over 15 years to the Medicare Part A trust fund. Of course, since Medicare Part A operates as a pay-as-you-go program, it is impossible to pre-fund its obligations through a trust fund that does not hold real assets. The assets it does hold amount to no more than an obligation to pay — not the actual means to do so, which must be obtained by increasing taxes, decreasing spending, or borrowing at the appointed time. In contrast to Clinton's latest Social Security proposal, which would invest additional resources in the private sector (itself a bad proposal that has been rejected by Alan Greenspan), there would be no addition of real resources to Medicare but merely a paper transfer that would then double-count itself to accrue interest on these IOUs.

Ironically, the Administration's proposal states that the nation "should not pass along its inevitable Medicare financing crisis to its children." Its phony transfer scheme guarantees that it will not only do just that but also give the country the false sense of comfort that something real has actually been done.

Medicare: Impending Financial Insolvency

Medicare is the federal government's universal health plan for 39 million American seniors. Composed of three parts — Part A (the Hospital Insurance fund or HI), Part B, (Supplementary Medical Insurance or SMI), and Part C (Medicare Plus Choice) — it is Part A, the universal system, to which people most commonly refer. Funded from a trust fund supported by payroll taxes (2.45% of an employee's gross earnings evenly split between an employer and employee contribution), Medicare Part A faces severe financial constraints. As its own trustees wrote in this year's report:

> "The HI program remains out of financial balance — modestly so in the short range but substantially so in the long range. As we have reported since 1992, the HI trust fund does not meet our short-range test of financial adequacy..." [Medicare Trustees 1999 Report, page 15.]

This is the same news President Clinton has received each year of his administration. Specifically, Medicare Part A's expenses are already outstripping its payroll tax revenues. *"Projected HI tax income would meet only a declining share of expenditures under present law. Tax income is expected to equal 97 percent of expenditures in 1999 and 86 percent in 2015 (when the fund is estimated to be depleted) and would cover about one-half of costs 75 years from now."* Medicare Trustees' 1999 Report, p. 2. As bad as this report is, the only reason it is not worse is because of reforms made in BBA 1997, including a transfer of part of what had been formerly Medicare trust fund expenses (home health care) to the general fund.

To grasp of the size of the problem, estimates cited by the Senate Finance Committee indicate that $1 trillion will be needed to simply sustain the existing Part A program through 2027 unless it is reformed.

All of this begs the question: After 6 and a half years of perpetually impending financial insolvency, why is President Clinton sending a bill that will use resources not to bolster Medicare's financial position but to increase its benefits instead?

More Spending, More Promises, and No Reform

After six and a half years in office — and after sinking the Bipartisan Medicare Commission's reform proposal earlier this year — one would expect that the Administration had had more than enough time to come up with a vision for real reform. But while it has assuredly had the time, it obviously does not have a vision. The plan President Clinton unveiled today offers little that is new — beyond an expensive new comprehensive benefit that the currently financially challenged Medicare program cannot afford without real reform. And, of that real reform, there is none. Even without the claimed transfer of hundreds of billions of dollars, the plan Clinton puts forth will actually increase the program's spending.

If this were not bad enough, the gimmick of a claimed transfer of hundreds of billions of dollars worth of IOUs is even worse. While it will not directly increase Medicare's spending, as will the rest of Clinton's proposal, it will allow the program to go unreformed under the false belief that it has been fundamentally changed. In fact, there will have been no change. Instead, its impending crisis will have been no more than papered over or, rather, IOUed over by President Clinton.

RPC Staff contact: Dr. J.T. Young, 224-2946